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C O N F I D E N T I A L MOSCOW 18563

USDOC FOR BEWT/TDAD-HAROSHAK

E.O. 11652: GDS

TAGS: EFIN, EEWHT, UR, US

SUBJECT: MANUFACTURERS-HANOVER OFFICE COMMENTS ON PROSPECTS IN USSR

1. FOLLOWING TWO DAYS OF MEETINGS WITH SOVIET BANKING AND FOREIGN TRADE OFFICIALS PLUS MEETINGS WITH TWO CEMA BANKS IN MOSCOW, MANUFACTURERS-HANOVER SENIOR VICE PRESIDENT JAMES GREENE GAVE AMBASSADOR RELATIVELY PESSIMISTIC REPORT DECEMBER 11 ON PROSPECTS FOR INCREASE OF HIS BANK'S EXPOSURE IN USSR UNDER CURRENT CONDITIONS. GREENE NOTED THAT SOVIETS SIMPLY HAVE NOT DRAWN OBVIOUS CONCLUSION FROM CURRENT CONDITIONS ON WORLD MONEY MARKETS AND CONTINUE TO APPROACH DISCUSSIONS WITH WESTERN BANKS AS THOUGH BANKS HAD LARGE FREE FUNDS READY TO LEND. GREENE SAID THAT MANUFACTURERS CURRENTLY HAS DOLLARS 70 MILLION EXPOSURE IN USSR, WHICH IN ANY EVENT IS CLOSE TO ITS LEGAL LENDING LIMIT OF DOLLARS 100 MILLION.

2. GREENE OBSERVED THAT HE HAD BEEN STRUCK DURING DISCUSSIONS WITH SOVIETS, INCLUDING DEPUTY MINISTER OF FOREIGN TRADE ALKHIMOV, BY ENORMOUS FINANCING NEEDS WHICH SOVIETS FACE IN COMING YEARS. PROJECTS WHICH SOVIETS WISH TO MOVE AHEAD ON WITH WESTERN COMPANIES, GREENE SAID, POSE REQUIREMENTS FOR EXTERNAL FINANCING WHICH ARE FAR IN EXCESS OF WHAT ANY ONE NATIONAL BANKING COMMUNITY, EVEN WITH OFFICIAL SUPPORT, WILL BE ABLE TO DO.

3. GREENE ALSO POINTED OUT THAT CURRENT TURMOIL ON IN-
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TERNATIONAL MONEY MARKETS HAS RESULTED IN WHAT HE REFERRED

TO AS "FLIGHT TO QUALITY," WITH CONSEQUENCE THAT MOST OF AVAILABLE LENDING RESOURCES FOR VERY LARGE PROJECTS ARE CONCENTRATED IN SMALL NUMBER OF BANKS SUCH AS MANUFACTURERS. THIS MEANS, HE SAID, THAT WHEN SOVIETS LOOK AT POSSIBILITY OF OBTAINING EXTERNAL FINANCING THROUGH COMMERCIAL BANKS, THEIR OPTIONS ARE MUCH MORE LIMITED THAN WAS CASE IN PREVIOUS YEARS. GREENE ADDED THAT SOVIETS HAVE NOT ADJUSTED TO THIS SITUATION AND CONTINUE TO TREAT THEIR RELATIONS WITH BANKS SUCH AS MANUFACTURERS IN VERY SHORT-SIGHTED MANNER. IF SOVIETS WERE PREPARED TO KEEP SUBSTANTIAL FUNDS WITH MANUFACTURERS ON FAVORABLE TERMS, MANUFACTURERS WOULD ON ITS SIDE BE PREPARED CONSIDER MORE FORTHCOMING APPROACH TO SOVIET REQUESTS FOR FINANCING. HOWEVER, SOVIETS SEEK MAXIMIZE THEIR SHORT-TERM GAINS AND GIVE NO INDICATION THAT THEY ARE INTERESTED IN DEVELOPING FRUITFUL, LONGER-TERM RELATIONSHIP.

4. COMMENT: IN CAPITAL-SHORT WORLD, SOVIETS ARE COMPETING WITH NUMBER OF OTHER COUNTRIES FOR AVAILABLE FUNDS. JUDGING FROM GREENE'S REMARKS, SOVIETS DO NOT APPEAR READY TO MAKE THEIR FINANCING REQUIREMENTS SUFFICIENTLY ATTRACTIVE TO INTERNATIONAL BANKING COMMUNITY TO ATTRACT FINANCING THEY NEED. CONCENTRATION OF LENDABLE FUNDS IN EVER-SMALLER NUMBER OF BANKS MAKES PROBLEM OF LEGAL LENDING LIMIT PARTICULARLY IMPORTANT IN CASE OF U.S. BANKS. GREENE INDICATED THAT SOVIETS WERE AWARE OF THIS PROBLEM BUT DID NOT, AS YET, APPEAR TO HAVE ANY READY SOLUTIONS. HE SUGGESTED, AS SHORT-TERM SOLUTION, THAT SOVIETS AGREE TO STATE THAT OBLIGATIONS OF BANK OF FOREIGN TRADE ARE BACKED BY "FULL FAITH AND CREDIT" OF SOVIET UNION, WHICH WOULD ALLOW LEGAL LENDING LIMIT TO INCREASE FROM 10 PERCENT OF CAPITAL TO 25 PERCENT OF CAPITAL.

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